PERAC AUDIT REPORT

Minuteman Regional School District Employees
Contributory Retirement System
JAN. 1, 2011 - DEC. 31, 2013





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COMMONWEALTH OF MASSACHUSETTS

PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

JOSEPH E. CONNARTON, Executive Director

Auditor SUZANNE M. BUMP | PHILIP Y. BROWN, ESQ. | JOHN B. LANGAN | JAMES M. MACHADO | DONALD R. MARQUIS | ROBERT B. McCARTHY

December 2, 2014

The Public Employee Retirement Administration Commission has completed an examination of the Minuteman Regional School District Employees' Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January I, 2011 to December 31, 2013. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiner James Ryan who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,

Joseph E. Connarton Executive Director

Joseph E. Connactors





EXPLANATION OF FINDINGS AND RECOMMENDATIONS

I. Cash/Bank Reconciliation:

The bank reconciliation is prepared by the Treasurer and proves to the bank statement balance, however, the bank balance is not reconciled to the bank accounts in the general ledger (GL) balance. A review of the bank reconciliation for the ending periods March 31, 2014 and December 31, 2013 revealed an un-reconciled variance between bank and GL balance of \$5,366.32 and \$35,754.01 for the respective periods ending March 31, 2014 and December 31, 2013. It is believed that the variance dates back to sometime in 2011.

Recommendation: As custodian of the retirement fund, the Treasurer is obligated to perform a monthly reconciliation of the cash accounts for both the bank balance and the GL balance. The Treasurer and the Board's Administrator must work together on a monthly basis to ensure this procedure is completed.

All bank reconciliation variances must be completely explained and not allowed to carry forward each month. An adjusting journal entry on the GL should be made if necessary to correct these differences.

Board Response:

The Board has an extensive cash and bank reconciliation program in place. The Treasurer performs a monthly reconciliation of the cash accounts, checks and GL balance. The reconciliation and supporting documents are provided to the Board monthly as part of the monthly financial report. The Treasurer and Board Administrator are working closely to assure the procedure is completed and any variances are explained and made on the GL.

2. Refunds:

An examination of refunds indicated that interest was incorrect in all four cases where a member was eligible for a refund with interest at the 3% rate. Three of the member refunds had no 3% interest added to the refund and one member who had 3% added did not get the 3% added to money transferred-in from another Board. Section 25 of Chapter 131 of the Acts of 2010 provides that effective July 1, 2010, the annual rate of interest that will be paid when a member voluntarily withdraws from service and seeks a return of his or her contributions with less than 120 months (10 years) of creditable service will be 3%.

Recommendation: The four members who received an underpayment of interest on their refund need to be repaid the additional 3% interest which was originally due. Please refer to 2010 PERAC Memo #31 for guidance. In cases where a member with less than 10 years of service transfers in, the member's Annuity Savings Fund history should be requested from the other system so that 3% interest can be applied for the entire career.

Board Response:

The Board will repay the four members who received an underpayment due to the 3% interest issue. The Board will seek repayment from the other Board for the 3% interest which was not transferred to the Board. The Board will request an annuity savings fund history for any transfer in with less than 10 years of service. The Board believes that its new retirement software and careful monitoring will resolve this issue.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

3. Overpaid COLA in Retiree Payroll:

The March 29, 2013 retiree payroll included an additional COLA of \$1,126.99. The Board Administrator was unaware of the overpayment and it was believed to be an unexplained payroll software issue. The April payroll was correct and did not include the additional COLA.

Recommendation: The erroneous payment of the COLA in the March 2013 payroll should be paid back by the retirees in a future payroll period.

To prevent this situation from occurring in the future, an additional internal control of comparing and explaining the change in the gross monthly payroll earnings should be implemented.

Board Response:

The Board voted at its September 29, 2014 meeting to waive the overpayments in accordance with G.L. c. 32, $\S 20(5)(c)(3)$. The Administrator is discussing any variances in the retiree payroll with the Board during the approval of the monthly payroll warrant.

PERAC Response:

G.L. c. 32, \S 20(5)(c)(3) is not applicable due to the error not persisting in excess of one year. The \$1,126.99 must be paid back by the retirees.

4. Date of Death Benefit Cut-off:

It is the Board's practice to pay the full month's gross payroll to a retiree regardless of the date of death within that month. This practice was confirmed for three deceased retirees who died approximately halfway before the payroll month ended. No effort was made to retrieve the overpayment.

Recommendation: With the consideration of preserving funds that are due the Retirement System, the preferred practice in other Retirement Systems is to pay the retiree through the date of death (Chapter 32, § 13 (1)(b)). If the check is issued before there was any knowledge or enough time to change the check amount, the Board should contact the beneficiary or next of kin and seek recovery of the portion that was overpaid. A standard letter signed by the Board Chairman and requesting the remaining portion of the benefit due the Retirement System would be an acceptable procedure under these circumstances.

Board Response:

The Board voted at its September 29, 2014 meeting to waive the overpayments in accordance with G.L. c. 32, \S 20(5)(c)(3). The Board will pay deceased retirees only through the date of death going forward and will seek reimbursement on a case by case basis going forward where the Board does not become aware of a retiree's death in a timely manner.

5. Accounting:

The auditor observed the following areas within the General Ledger accounting activity which require correction or improvement:

 Accounting accruals and reversals are being booked incorrectly and as a result Accounts Receivable (AR) and Accounts Payable (AP) GL accounts do not reconcile to their supporting

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

schedules. It was observed that the 2011 and 2012 year end AR GL balances didn't reconcile to the subsidiary "Schedule A" on the Annual Statement. Following year AR & AP reversal journal entries are incorrect. Also, a large member transfer in the amount of \$54,792 relating to December of 2013 was not accrued and was recorded in 2014.

- Member Refunds are recorded on the GL net of federal tax. They should be recorded gross of tax.
- The ex-officio Board members monthly stipend is being recorded to the Salaries GL account instead of the Board Member Stipend account.

Recommendation: AR and AP GL ending balances must agree with "Schedule A' of the Annual Statement. Refunds should be recorded gross of federal taxes withheld. Board member stipends should not be recorded in the salaries GL account.

Board Response:

The Administrator and Treasurer have reviewed the accounting issues together with information supplied by the Auditor. The Board will make changes in accounting procedures as suggested.

6. Monthly Financial Reporting:

A review of Board minutes and financial records over the three year audit period indicated that the Board does not review a monthly standard set of financial documents. The auditor observed that beginning in March 2014 a notation was made in the minutes regarding the presentation of a Financial Report by the Board Administrator. The document presented was the month's closed GL trial balance.

Recommendation: The Retirement System must compile and submit a monthly reporting package to the Retirement Board for review and approval. The package should contain the formal bank reconciliation for all active bank accounts; a complete set of month-end general ledger (GL) reports including cash receipts and disbursement journals, adjusting journal entries and a complete trial balance. A more formal report must identify all significant monthly cash receipt and disbursement variances from a cash flow forecast or similar budgetary summary. This process will assist the Retirement Board in the exercise of their fiduciary responsibilities. The distribution of additional financial data will provide a basis for formalizing the supervision of the system by the Retirement Board. It will also help to determine that Retirement Board policy is implemented and adhered to. A notation should be made in the minutes indicating that the documents have been presented to the Retirement Board.

Board Response:

The Administrator and Treasurer have been presenting a monthly financial report to the Board since March 2014. At the suggestion of the Auditor, the Board has included a formal bank reconciliation, a complete set of month-end general ledger reports, and a complete trial balance. The Board discusses and approves the financial report monthly.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

FINAL DETERMINATION:

PERAC Audit staff will follow up in six (6) months to ensure appropriate actions have been taken regarding all findings.

STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF DECEMBER 31,				
	2013	2012	2011		
Net Assets Available For Benefits:					
Cash	\$193,448	\$587,352	\$158,515		
PRIT Cash Fund	0	0	0		
PRIT Core Fund	12,478,200	11,015,193	10,482,084		
Accounts Receivable	18,720	180,364	23,498		
Accounts Payable	<u>0</u>	(79,073)	<u>0</u>		
Total	\$ <u>12,690,367</u>	\$ <u>11,703,836</u>	\$ <u>10,664,098</u>		
Fund Balances:					
Annuity Savings Fund	\$2,288,790	\$2,303,133	\$2,134,778		
Annuity Reserve Fund	587,199	739,422	813,932		
Pension Fund	125,817	51,525	816		
Military Service Fund	0	0	0		
Expense Fund	0	0	0		
Pension Reserve Fund	<u>9,688,562</u>	<u>8,609,756</u>	<u>7,714,572</u>		
Total	\$12,690,367	\$ <u>11,703,836</u>	\$10,664,098		

STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2011)	\$1,952,361	\$795,132	\$147,780	\$0	\$0	\$8,129,789	\$11,025,061
Receipts	368,345	23,821	173,760	0	83,496	(65,217)	584,206
Interfund Transfers	(158,137)	158,137	350,000	0	0	(350,000)	0
Disbursements	(<u>27,791</u>)	(<u>163,158</u>)	(<u>670,724</u>)		(<u>83,496</u>)	<u>0</u>	(<u>945,170</u>)
Ending Balance (2011)	2,134,778	813,932	816	0	0	7,714,572	10,664,098
Receipts	336,725	23,942	345,973	0	86,368	1,303,236	2,096,244
Interfund Transfers	(74,606)	74,606	409,371	0	0	(409,371)	0
Disbursements	(93,763)	(<u>171,739</u>)	(<u>704,635</u>)		(86,368)	<u>0</u>	(1,056,506)
Ending Balance (2012)	2,303,133	740,741	51,525	0	0	8,608,437	11,703,836
Receipts	282,951	19,852	322,925	0	103,640	1,550,234	2,279,603
Interfund Transfers	0	0	471,428	0	0	(471,428)	0
Disbursements	(297,295)	(172,076)	(<u>720,062</u>)		(103,640)	<u>0</u>	(1,293,072)
Ending Balance (2013)	\$ <u>2,288,790</u>	\$ <u>588,518</u>	\$ <u>125,817</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>9,687,243</u>	\$ <u>12,690,367</u>

STATEMENT OF RECEIPTS

	FOR THE PERIO	D ENDING DECEMBI	FR 31
	2013	2012	2011
Annuity Savings Fund:			
Members Deductions	\$252,619	\$212,20 4	\$219,237
Transfers from Other Systems	28,335	121,323	145,435
Member Make Up Payments and Re-deposits	0	I,13 4	0
Investment Income Credited to Member Accounts	1,997	<u>2,064</u>	3,674
Sub Total	<u>282,951</u>	336,725	368,345
Annuity Reserve Fund:			
Recovery of Annuity from Reinstatement Investment Income Credited to the Annuity Reserve	0	0	0
Fund	19,852	23,942	23,821
Sub Total	19,852	23,942	23,821
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor	165,832	188,880	30,214
Benefits	7,093	7,093	3,547
Pension Fund Appropriation	150,000	150,000	140,000
Sub Total	322,925	345,973	173,760
Military Service Fund:			
Contribution Received from Municipality on Account of			
Military Service Investment Income Credited to the Military Service	0	0	0
Fund	0		•
	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>0</u>	<u>0</u>	<u>0</u>
Expense Fund:			
Investment Income Credited to the Expense Fund	103,6 4 0	<u>86,368</u>	<u>83,496</u>
Sub Total	103,640	<u>86,368</u>	<u>83,496</u>
Pension Reserve Fund:			
Miscellaneous Income	0	111	0
Excess Investment Income	1,550,234	1,303,125	(65,217)
Sub Total	1,550,234	1,303,236	(<u>65,217</u>)
Total Receipts, Net	\$ <u>2,279,603</u>	\$ <u>2,096,244</u>	\$ <u>584,206</u>

STATEMENT OF DISBURSEMENTS

		FOR THE PERIO	D ENDING DECEMBE	ER 31,
		2013	2012	2011
Annuity Savings Fund:				
Refunds to Members		\$25,636	\$7,757	\$27,791
Transfers to Other Systems		271,658	<u>86,007</u>	<u>0</u>
S	ub Total	297,295	<u>93,763</u>	27,791
Annuity Reserve Fund:	İ			
Annuities Paid		<u>172,076</u>	<u>171,739</u>	<u>163,158</u>
S	ub Total	172,076	171,739	163,158
Pension Fund:				
Pensions Paid:				
Regular Pension Payments		655, 4 87	641,592	615,160
Survivorship Payments		7,097	7,301	9,507
Ordinary Disability Payments		10,622	9,310	0
Accidental Disability Payments		23,186	22,763	22,388
3 (8) (c) Reimbursements to Other Systems		<u>23,669</u>	<u>23,669</u>	<u>23,669</u>
s	ub Total	720,062	<u>704,635</u>	670,724
Expense Fund:				
Salaries		20,924	17,2 4 7	16,631
Travel Expenses		0	0	273
Administrative Expenses		3,167	587	1,619
Education and Training		1,093	2,414	895
Furniture and Equipment		4,300	0	0
Management Fees		65,439	57, 4 06	54,209
Service Contracts		8,028	8,028	9,203
Fiduciary Insurance		<u>688</u>	<u>687</u>	<u>667</u>
S	ub Total	<u>103,640</u>	<u>86,368</u>	<u>83,496</u>
Total Disburs	ements	\$ <u>1,293,072</u>	\$ <u>1,056,506</u>	\$ <u>945,170</u>

INVESTMENT INCOME

		D ENDING DECEMB	,
	2013	2012	2011
Investment Income Received From:			
Cash	\$0	\$0	\$373
Pooled or Mutual Funds	<u>341,026</u>	<u>343,911</u>	<u>331,737</u>
Total Investment Income	<u>341,026</u>	<u>343,911</u>	332,111
Plus:			
Realized Gains	5 4 7,961	279,213	340,293
Unrealized Gains	<u>1,415,377</u>	<u>1,464,101</u>	<u>1,066,389</u>
Sub Total	1,963,337	1,743,314	1,406,682
Less:			
Unrealized Loss	(628,640)	(671,726)	(5,990)
Interest Due and Accrued - Prior Year	<u>0</u>	<u>0</u>	(1,687,028)
Sub Total	(628,640)	(<u>671,726</u>)	(<u>1,693,018</u>)
Net Investment Income	1,675,724	1,415,500	45,774
Income Required:			
Annuity Savings Fund	1,997	2,064	3,674
Annuity Reserve Fund	19,852	23,942	23,821
Military Service Fund	0	0	0
Expense Fund	103,640	<u>86,368</u>	83,496
Total Income Required	125,490	112,375	110,991
			45
Net Investment Income	1,675,724	<u>1,415,500</u>	<u>45,774</u>
Less: Total Income Required	125,490	112,375	110,991
Excess Income (Loss) To The Pension Reserve			
Fund	\$ <u>1,550,234</u>	\$ <u>1,303,125</u>	(\$65,217)

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

	AS OF DECEMBER 31, 2013			
			PERCENTAGE	
			OF TOTAL	
		MARKET VALUE	ASSETS	
Cash		\$193,448	1.5%	
PRIT Cash Fund		0	0.0%	
PRIT Core Fund		12,478,200	<u>98.5</u> %	
	Grand Total	\$12,671,647	100.0%	

For the year ending December 31, 2013, the rate of return for the investments of the Minuteman Regional School District Employees' Retirement System was 14.59%. For the five-year period ending December 31, 2013, the rate of return for the investments of the Minuteman Regional School District Employees' Retirement System averaged 11.79%. For the twenty-nine year period ending December 31, 2013, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Minuteman Regional School District Employees' Retirement System was 9.76%.

The composite rate of return for all retirement systems for the year ending December 31, 2013 was 15.57%. For the five-year period ending December 31, 2013, the composite rate of return for the investments of all retirement systems averaged 12.13%. For the twenty nine year period ending December 31, 2013, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.49%.

SUPPLEMENTARY INVESTMENT REGULATIONS

The Minuteman Regional School District Employees' Retirement System has invested all of the system's assets with the PRIT fund. No supplementary investment regulations were submitted to the Public Employee Retirement Administration Commission.

NOTES TO FINANCIAL STATEMENTS

NOTE I - SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Minuteman Regional School District Employees' Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

ADMINISTRATION

There are 105 contributory retirement systems for public employees in Massachusetts. Each system is governed by a retirement board and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements and a uniform accounting and funds structure for all systems.

PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There is only 1 class of membership in the retirement system:

Group I:

General employees, including clerical, administrative, technical and all other employees not otherwise classified.

MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975: 5% of regular compensation 1975 - 1983: 7% of regular compensation 1984 to 6/30/96: 8% of regular compensation 7/1/96 to present: 9% of regular compensation

1979 to present: an additional 2% of regular compensation in excess of \$30,000.

In addition, members of Group I who join the system on or after April 2, 2012 will have their withholding rate reduced to 6 % after achieving 30 years of creditable service.

RATE OF INTEREST

Interest on regular deductions made after January I, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire at age 65. There is no mandatory retirement age for employees in Group 1.

SUPERANNUATION RETIREMENT

A person who became a member before April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- · completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1

A person who became a member on or after April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year (or five year as discussed below) average salary. For veterans as defined in G.L. c. 32, s. I, there is an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

For employees who become members after January 1, 2011, regular compensation is limited to 64% of the federal limit found in 26 U.S.C. 401(a)(17). In addition, regular compensation will be limited to prohibit "spiking" of a member's salary to increase the retirement benefit.

- For persons who became members prior to April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last 3 years (whether or not consecutive) preceding retirement.
- For persons who became members on or after April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 5 consecutive years that produce the highest average, or, if greater, during the last 5 years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age. For persons who became members prior to April 2, 2012 the highest rate of 2.5% applies to Group I employees who retire at or after age 65, A .1% reduction is applied for each year of age under the maximum age for the member's group.
- For persons who became members on or after April 2, 2012 and retire with less than 30 years of creditable service, the highest rate of 2.5% applies to Group I employees who retire at or after age 67, A .15% reduction is applied for each year of age under the maximum age for the member's group.
- For persons who became members on or after April 2, 2012 and retire with more than 30 years of creditable service, the highest rate of 2.5% applies to Group I employees who retire at or after age 67, A .125% reduction is applied for each year of age under the maximum age for the member's group.

DEFERRED VESTED BENEFIT

A participant who has attained the requisite years of creditable service can elect to defer his or her retirement until a later date. All participants must begin to receive a retirement allowance or withdraw their accumulated deductions no later than April 15 of the calendar year following the year they reach age $70\frac{1}{2}$.

WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. The interest rate for employees who first become members on or after January I, 1984 who voluntarily withdraw their contributions with less than 10 years of service will be 3%. Interest payable on all other withdrawals will be set at regular interest.

DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

ORDINARY DISABILITY

Eligibility: Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, s.6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching "maximum age".

Retirement Allowance: For persons who became members prior to April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member's final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

For persons in Group I who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 60. If the member is a veteran, the benefit is 50% of the member's final rate of salary during the preceding I2 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 60, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

ACCIDENTAL DISABILITY

Eligibility: Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January I, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$774.36 per year (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member's retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution. For systems that have adopted Chapter 157 of the Acts of 2005, veterans as defined in G.L. c. 32, s. I receive an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

ACCIDENTAL DEATH

Eligibility: Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

Allowance: An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$774.36 per year, per child (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 9(2)(d)(ii) has not been adopted), payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of \$6,000. For Systems that accept the provisions of Section 28 of Chapter 131 of the Acts of 2010, the amount of this benefit is \$9,000. For Systems that accept the provisions of Section 63 of Chapter 139 of the Acts of 2012, the amount of this benefit is \$12,000.

DEATH IN ACTIVE SERVICE

Allowance: An immediate allowance equal to that which would have been payable had the member retired and selected Option C on the day before his or her death. For a member who became a member prior to April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 55 benefit rate is used. For a member classified in Group I who became a member on or after April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 60 benefit rate is used. If the member died after age 60, the actual age is used. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is \$3,000 unless the retirement system has accepted the local option increasing this minimum annual allowance to \$6,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death

The surviving spouse of such a member in service receives an additional allowance equal to the sum of \$1,440 per year for the first child and \$1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase (COLA) for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. Only a certain portion of a retiree's total allowance is subject to a COLA. The total COLA for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

Under the provisions of Chapter 32, Section 103(j) inserted by Section 19 of Chapter 188 of the Acts of 2010, systems may increase the maximum base on which the COLA is calculated in multiples of \$1,000. For many years the COLA base was calculated based upon the first \$12,000 of a retiree's allowance. Now the maximum base upon which the COLA is calculated varies from system to system. Each increase in the base must be accepted by a majority vote of the Retirement Board and approved by the legislative body.

METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

Option A: Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

Option B: A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

Option C: A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who is has not remarried, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up" to Option A) based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" to Option A in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system. If a member received regular compensation concurrently from two or more systems on or after January I, 2010, and was not vested in both systems as of January I, 2010, such a pro-ration will not be undertaken. This is because such a person will receive a separate retirement allowance from each system.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

<u>Cash</u> accounts are considered to be funds on deposit with banks and are available upon demand.

<u>Short Term Investments</u> are highly liquid investments that will mature within twelve months from the date of acquisition.

Investments are reported at their fair value. Securities traded on recognized exchanges are valued at the most recent sales price at year end. If no sale was reported, the mean of the bid and asked price is used when available, or the most recent bid price. Mutual, commingled and pooled funds are valued based on the net asset or unit value at year end. Real estate and alternative investments are valued based on estimates provided by the managers of those respective investments. Purchases and sales of securities are reflected on the date the trade is initiated. Realized gain or loss is largely based on the difference between the cost or the value at the prior year end and the funds realized upon liquidation. Dividend income is generally recorded when received. Interest income is recorded as earned on an accrual basis. Income from alternative investments is recorded as reported by the managing partner. Appreciation or depreciation in the value of investments consists of the unrealized gains and losses reported as the difference between the previous period and the current value.

The system makes estimates and assumptions that affect the reported values of assets and liabilities and the reported amounts added and deducted during the reporting periods. The fair value of real estate and alternative investment holdings are generally estimated in the absence of reliable exchange values. The actual funds realized upon liquidation may differ from these estimates.

The provisions of Massachusetts General Laws Chapter 32, § 23 (2) generally govern the investment practices of the system. The Board (retains an investment consultant to closely monitor the implementation and performance of their investment strategy and advise them of the) (primarily relies upon the investment strategy of the PRIM Board to maintain their) progress toward full funding of the system. That strategy seeks to balance the exposure to common deposit and investment risks related to custody, credit concentrations, interest rate and foreign currency fluctuations.

Operating expenses include the ordinary and necessary cost of investment and professional services and the other miscellaneous <u>administrative expenses</u> of the system.

The <u>Annuity Savings Fund</u> is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The <u>Annuity Reserve Fund</u> is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The <u>Special Military Service Credit Fund</u> contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The <u>Expense Fund</u> contains amounts transferred from investment income for the purposes of administering the retirement system.

The <u>Pension Fund</u> contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The <u>Pension Reserve Fund</u> contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The <u>Investment Income Account</u> is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Minuteman Regional School District Employees' Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission on:

Membership

March 7, 2001

Permanent part time employees who work 25 or more hours per week and who are not classified as teachers and covered by the Teachers Retirement System shall be members of the Minuteman Regional District Retirement System.

Creditable Service

March 7, 2001

The Minuteman Regional School District Employees' Retirement System will grant one full year of creditable service for retirement purposes to those employees of the Minuteman Regional Vocational Technical School District employed on a full-time basis, as defined in their specific category of work, for at least a full academic year provided that such annual employment period consists of at least one hundred and eighty days. These workers must work the entire contract year to be granted the full year of creditable service. Food Service Workers are excluded from this rule. This regulation shall apply to those clerical personnel, aides, and other employees eligible for membership in the Minuteman Regional School District Retirement System.

<u>Part Time School Year Employees:</u> Members designated as permanent part time employees (those who work 25 or more hours per week) who are to be granted a full year of creditable service [for working a full school year] shall be granted that service on a pro-rated basis calculated on the percent of the full-time hours/days as defined in the specific category of work that they actually work. Food Service Workers are excluded from this rule.

<u>Part Time Employees Full Year:</u> Members designated as permanent part time employees (those who work 25 or more hours per week) [for a full calendar year] shall be granted creditable service on a pro-rated basis calculated on the percentage of the twelve-month year that they actually work.

<u>Food Service Workers:</u> Food Service Workers (i.e. covered by the Food Service Workers Salary Schedule) who work 25 or more hours per week and who are under contract with the Minuteman District for the entire school year shall receive one twelve-month year's credit for each full school year worked.

<u>Food Service Workers:</u> Any Food Service Worker whose hours per week are reduced below 25 by the District shall be granted creditable service at the 25 hour per week level.

<u>Retroactive Creditable Service:</u> The Minuteman Regional School District Employees' Retirement System will allow the full year credit for those employed on a full-time basis or permanent part-time basis as defined on this date retroactively to those years in which such persons were so employed. This change will reflect only those individuals who retire subsequent to this notice.

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

Travel Regulations

April 24, 2003

The Minuteman Regional School District Employees' Retirement System has adopted Travel Supplemental Regulations under the provisions of G.L. c. 7, § 50 and G.L. c. 32, § 21(4). (Regulation available upon written request or can be viewed on the PERAC website:

http://www.mass.gov/perac/03travelreg/minutemantravelreg.html

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the Treasurer who shall be a member ex-officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex-officio Member: Laurie Elliott

Appointed Member: Kevin Mahoney, Chairman Term Expires: 11/16/14

Elected Member: Maria Oliveira Term Expires: 1/22/15

Elected Member: Elizabeth Rozan Term Expires: 1/23/16

Appointed Member: Norman Cohen Term Expires: 1/6/15

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board. The PERAC Actuary performs verification prior to payment, unless the system has obtained a waiver for superannuation calculations allowing them to bypass this requirement. All expenses incurred by the System must be approved by a majority vote of the Board. Payments shall be made only upon vouchers signed by two persons designated by the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian: Coverage provided to a limit of \$50,000,000 Ex-officio Member: under a master MACRS sponsored policy issued through a layered program with

Travelers, National Union Fire, and Arch Separate fidelity coverage pertaining to

Appointed Members: Separate fidelity coverage pertaining to Staff Employees: ERISA/Crime to a limit of \$1,000,000 issued

through Travelers Casualty and Surety

Company, deductible \$10,000.

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by the Public Employee Retirement Administration Commission as of January 1, 2013.

\$4,421,420
8,197,484
\$12,618,904
11,349,745
\$ <u>1,269,159</u>
89.9%
\$2,337,940

The normal cost for employees on that date was 8.7% of payroll The normal cost for the employer was 3.1% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 7.75% per annum

Rate of Salary Increase: Service based with ultimate rate of 4.25%

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2013

Actuarial	Actuarial Value of	Actuarial Accrued	Unfunded AAL	Funded	Covered	UAAL as a % of	
Valuation	Assets	Liability	(UAAL)	Ratio	Payroll	Cov. Payroll ((b-a)/c)	
Date	(a)	(b)	(b-a)	(a/b)	(c)		
1/1/2013	\$11,349,745	\$12,618,904	\$1,269,159	89.9%	\$2,337,940	54.3%	
1/1/2011	\$11,879, 444	\$11, 4 21,837	(\$457,607)	104.0%	\$2,235,594	-20.5%	
1/1/2009	\$9,637,625	\$9,675,597	\$37,972	99.6%	\$2,550,458	1.5%	
1/1/2007	\$10,352,822	\$8,749,680	(\$1,603,142)	118.3%	\$2,138,784	-75.0%	

NOTE 6 - MEMBERSHIP EXHIBIT

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Retirement in Past Years										
Superannuation	4	I	1	I	I	3	5	2	0	0
Ordinary Disability	0	0	0	I	0	0	0	0	I	0
Accidental Disability	0	0	0	0	0	0	0	0	0	0
Total Retirements	4	I	I	2	I	3	5	2	I	0
Total Retirees, Beneficiaries										
and Survivors	27	28	29	31	32	34	37	38	39	39
Total Active Members	49	48	49	52	56	57	53	57	57	57
Pension Payments										
Superannuation	\$240,534	\$241,825	\$249,522	\$260,169	\$343,286	\$397,229	\$481,350	\$615,160	\$641,592	\$655,487
Survivor/Beneficiary Payments	0	0	0	0	0	0	0	9,507	7,301	7,097
Ordinary Disability	16,290	16,290	16,290	16,290	16,290	16,290	10,287	0	9,310	10,622
Accidental Disability	18,776	18,776	18,776	18,776	18,776	18,776	18,776	22,388	22,763	23,18
Other	67,938	<u>75,311</u>	83,616	92,185	30,038	33,508	32,983	23,669	23,669	23,669
Total Payments for Year	\$ <u>343,538</u>	\$ <u>352,202</u>	\$ <u>368,204</u>	\$ <u>387,420</u>	\$ <u>408,390</u>	\$ <u>465,803</u>	\$ <u>543,396</u>	\$ <u>670,724</u>	\$ <u>704,635</u>	\$ <u>720,060</u>

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